

ILLINOIS COMMERCE COMMISSION

DOCKET No. 13-0476

REBUTTAL TESTIMONY

OF

RYAN K. SCHONHOFF

Submitted on Behalf Of

AMEREN ILLINOIS COMPANY

d/b/a Ameren Illinois

November 6, 2013

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I. INTRODUCTION

A. Witness Identification

Q. Please state your name and business address.

A. My name is Ryan K. Schonhoff and my business address is One Ameren Plaza, 1901 Chouteau Avenue, St. Louis, Missouri 63103.

Q. Are you the same Ryan K. Schonhoff who sponsored direct testimony in this proceeding?

A. Yes, I am.

B. Purpose, Scope and Identification of Exhibits

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is to respond to certain arguments raised in the direct testimonies of Mr. Philip Rukosuev on behalf of the Illinois Commerce Commission Staff (Staff), Mr. Scott Rubin on behalf to the People of the State of Illinois (AG), Mr. Robert Stephens and Ms. Amanda Alderson on behalf of the Illinois Industrial Energy Consumers (IIEC) and Mr. Jeffrey Adkisson on behalf of the Grain and Feed Association (GFA).

22 **Q. Are you sponsoring any exhibits with your rebuttal testimony?**

23 A. Yes. I am sponsoring the following exhibits:

- 24 • Ameren Exhibit 5.1: Response to AIC-Staff 1.01
- 25 • Ameren Exhibit 5.2: Response to AIC-Staff 1.03
- 26 • Ameren Exhibit 5.3: EEI Survey Results
- 27 • Ameren Exhibit 5.4: NARUC Manual Reference
- 28 • Ameren Exhibit 5.5: Response to AIC-GFA 4.01

29 **II. RESPONSE TO STAFF WITNESS MR. RUKOSUEV**

30 **Q. Have you reviewed the direct testimony of Mr. Rukosuev?**

31 A. Yes. I have reviewed Mr. Rukosuev's statements related to AIC's four proposed
32 modifications to the ECOSS. These four proposed modifications are 1) Supply Voltage and
33 Service Voltage Recognition, 2) Primary Distribution Line Allocator, 3) Functionalization of
34 Overhead Lines, and 4) AMI Investment Allocations.

35 **Q. Does Mr. Rukosuev recommend that the Commission approve any of the cost**
36 **allocation proposals you addressed in your direct testimony?**

37 A. Yes. Mr. Rukosuev recommends the Commission approve AIC's proposals related to
38 Supply Voltage and Service Voltage Recognition and AMI Investment Allocations.

39 **Q. Does Mr. Rukosuev recommend that the Commission reject any of the cost**
40 **allocation proposals you address in your direct testimony?**

41 A. Yes. Mr. Rukosuev recommends the Commission reject 1) AIC's proposal to modify its
42 functionalization of overhead distribution lines, and 2) AIC's proposal to utilize an NCP method
43 to allocate primary distribution lines.

44 **Q. Have you presented additional analysis in your rebuttal testimony in support of**
45 **these two proposals?**

46 A. Yes. I have prepared additional analysis in support of these two proposals and explain
47 the additional analysis below.

48 **A. Functionalization of Overhead Lines**

49 **Q. Please explain why AIC proposes to change the manner in which it functionalizes**
50 **overhead lines.**

51 A. AIC seeks to modify the functionalization of overhead distribution lines in an effort to
52 more accurately and consistently categorize costs. This, in turn, should result in an ECOSS that
53 more accurately assigns costs to the rate classes.

54 **Q. Does Mr. Rukosuev agree conceptually with AIC's underlying goal, i.e., to more**
55 **accurately functionalize costs?**

56 A. Yes. Mr. Rukosuev states in his direct testimony that he “agree(s) conceptually with
57 using a more accurate method to functionalize these costs and the limited general statements
58 provided in the Company’s testimony on this issue seem to indicate that AIC’s proposed method
59 presents a more reasonable approach than the old method.” (ICC Staff Ex. 1.0C, p. 8:161-64.)
60 Before agreeing that the Company should use the proposed allocation method however, Mr.
61 Rukosuev seeks additional evidence to allow him to confirm that the proposed change better
62 reflects cost causation principles.

Q. Specifically, Mr. Rukosuev states in his direct testimony (lines 189-190) that the record lacks evidence indicating that the new method will benefit either AIC or its customers. Does the proposal benefit customers?

A. Yes. AIC's proposal is revenue neutral, so AIC will not benefit from its recommendation. However, customers benefit to the extent that the change in methodology results in an improved cost of service study that produces a more accurate guide for future rate design and pricing.¹ In this instance, AIC believes that the change in methodology results in an improved cost allocation because it more accurately and consistently allocates costs. The remainder of my rebuttal testimony on this issue provides the evidence requested by Mr. Rukosuev, which demonstrates that the change in methodology does result in an improved cost allocation.

Q. Mr. Rukosuev requests the Company provide more explanation of its proposed methodology in rebuttal. Have you done that?

A. Yes. Mr. Rukosuev recommends that AIC address five points in rebuttal. Specifically, Mr. Rukosuev requests that the Company:

- (1) Explain, in detail, the ways in which the new method is more accurate than the old method. Specifically discuss cost justifications for the proposed method;
- (2) Explain, in detail, whether the study of Rate Zone III cost data that was used to determine the percentage used as a proxy for all Rate Zones is utilized in the new methodology as well;
- (3) Explain, in detail, the role the Replacement Cost New Study (RCN) plays in the new method vs. the current method;

¹ Bill Impact considerations among other externalities sometimes dampen movement toward actual cost of service or cost based rates.

(4) Specifically, explain how the proposed method, which includes the +100kV distribution lines in the analysis, provides a better functionalization of costs than the current method; and

(5) Explain, in detail, why a different cost allocation method, to go along with the re-functionalized method, is not required.

Mr. Rukosuev also responded to a set of data requests (AIC-Staff 5.01-5.05) wherein he provides additional guidance regarding the explanations requested. With this additional guidance in mind, I respond to his requests for additional information below.

Q. Please explain why you consider the proposed functionalization method to be more accurate than the current method.

A. Typically, an analysis that relies on actual data provides a better estimate of costs than an analysis that relies on proxy data. As stated on line 286 of my direct testimony, AIC's current functionalization methodology relies on proxy data from Rate Zone III, rather than actual data, to assign costs for Rate Zones I and II. Further, this Rate Zone III proxy data is derived from outdated, partial records of costs by operating voltage. AIC's proposed methodology relies on actual data for all Rate Zones, namely circuit miles and replacement cost per mile for each operating voltage level. I will explain this actual data in more detail and will focus on the explanation of, and my concerns with, the current methodology.

Q. If the proxy data is derived from outdated, partial records by operating voltage, then why is the current methodology functioning as though those records exist?

A. I had conversations with various employees in AIC's accounting department and determined that voltage level detail, at least for Rate Zone III, had historically existed for certain voltage levels of overhead distribution lines. Thus, Rate Zone III was historically able to utilize

these detailed records in order to provide the functionalization the costs of overhead distribution lines for certain operating voltages. I have also learned through discussions that new and replacement assets related to overhead distribution lines have not been tracked by voltage level since Ameren Corporation acquired Illinois Power (now Rate Zone III). It is important to note that new and replacement assets related to overhead distribution lines have not been tracked by voltage level for Rate Zone III since the acquisition in 2004. Therefore, AIC's Rate Zone III has approximately 10 years of investments that have not been categorized to the voltage level, as historically done. It is equally important to note that those records remain as part of the accounting records, but they remain partial costs for the reasons explained above. Thus, Rate Zone III historically, and appropriately, relied on the voltage level records to support cost causation. The current methodology relies on these partial records as if nothing has changed.

Q. Please explain these partial records in more detail, related to the current methodology.

A. AIC has complete plant accounting records for overhead distribution lines in total, but the data is not currently maintained in a manner that allows the Company to identify the costs of the various operating voltage levels. The distribution plant records for overhead distribution lines are instead maintained as "mass accounted" records; this means that AIC tracks the quantity and cost for major units, and only major units, of distribution plant related to overhead distribution lines. Examples of major units of plant include poles of various heights, cross-arms of various lengths, and conductors/wires of various sizes, etc. As a specific example, "mass accounted" record keeping allows AIC to track the quantity and cost of 50 ft. poles, but not which of those poles are used to support the primary distribution voltage system or which poles are used to

support the high voltage distribution system, etc. One consequence of this method of record keeping is that the Company doesn't have the ability to obtain operating voltage level data, which could be used to functionalize overhead line plant costs for ratemaking purposes.

Q. Please explain in further detail your concerns about using Rate Zone III proxy data.

A. The assumption embedded in the currently approved methodology is that each Rate Zone has the same percentage of total overhead line costs of +100kV Distribution. However, since plant accounting records are currently mass accounted, this assumption cannot be validated. Each Rate Zone has varying circuit miles of each voltage level of distribution lines, and to the extent we can utilize information incorporating the actual data to that effect, we should. Under the current method, any concern over this lack of voltage level data for Rate Zone III is compounded and affects all Rate Zones.

Q. What actual data is available that can be utilized for the purpose of functionalizing the costs of overhead distribution lines?

A. The number of circuit miles of distribution line at each operating voltage and the replacement cost per mile of each are readily available and utilized in AIC's currently approved functionalization methodology.

Q. How will this actual data be used in the proposed methodology?

A. Exactly as it is used in the current methodology, except for all voltage levels. AIC is proposing that the actual circuit miles of +100kV Distribution and the replacement cost of such be incorporated into the existing methodology, which currently only utilizes the circuit miles of

Secondary, Primary, and High Voltage distribution lines and the associated replacement cost of each.

Q. In reference to Mr. Rukosuev's second requested point of clarification, is the study of Rate Zone III cost data, which was used to determine the percentage used as a proxy for all Rate Zones, utilized in the proposed methodology?

A. No. The study of Rate Zone III cost data is not utilized in the new methodology, for the reasons previously mentioned.

Q. Why has AIC chosen its proposed method, instead of a completely different method?

A. The Commission currently accepts AIC's method of functionalizing costs of Secondary, Primary, and High Voltage overhead line costs. Rather than attempting to create an entirely new method of functionalizing distribution line costs, the Company decided to incorporate all voltage levels of overhead distribution lines into the currently approved methodology in order to maintain consistency. The currently approved methodology, with the exception of the inclusion of partial Rate Zone III cost data, relies heavily on a Replacement Cost New (RCN) concept. AIC believes the existing RCN concept is reasonable, considering the methodology is already accepted by the Commission in the current methodology to functionalization Secondary, Primary, and High Voltage overhead distribution line costs.

Q. In order to address Mr. Rukosuev's second point, please further explain the role the RCN plays in the new method verse the current method.

A. As explained in my direct testimony, the RCN concept applies in both the current and the new methods. The difference is to which voltage levels the RCN concept applies. The current methodology utilizes the RCN concept to functionalize costs of Primary, Secondary, and High Voltage Distribution lines, whereas the new methodology incorporates the +100kV Distribution lines. AIC has provided work papers which include the RCN analysis in its direct filing.

Q. How to you respond to Mr. Rukosuev's question about why a different cost allocation method, to go along with the re-functionalized method, is not required.

A. AIC wanted to maintain as much consistency in the ECOSS as possible while making limited improvements. AIC currently allocates overhead distribution lines as follows: secondary voltage using an NCP method, primary voltage using a CP method, high voltage using CP method, and +100kV Distribution using a CP method.

B. Allocation Method for Primary Distribution Lines

Q. Can you summarize the issue related to allocation of primary distribution lines?

A. Yes. AIC and Staff disagree on the appropriate allocation factor to use for allocating the cost of primary distribution lines. AIC, along with IIEC,² believes that the NCP method (also referred to as 1 NCP method in my testimony) provides a better allocation of costs of AIC's primary distribution lines than the CP method (also referred to as 1 CP method in my testimony). Staff opposes the NCP method, in favor of the CP method. AIC has provided justification for its proposal in its direct filing and will provide additional support of the NCP method below.

Q. Can you summarize your concerns with Staff's proposal?

² IIEC Exhibit 1.0, pp. 3-4

191 A. Yes. There would be negative consequences associated with using the CP method.

192 These include:

- 193 • Significant under allocation of costs to the DS-6 class (adversely and inappropriately
194 affecting the other classes);
- 195 • Significant under allocation of cost of the DS-5 class (adversely and inappropriately
196 affecting the other classes); and
- 197 • Continued conflict with national industry practices.

198 **Q. How do you respond, in general, to Mr. Rukosuev's arguments?**

199 A. I disagree with many of Mr. Rukosuev's statements and his conclusion on this topic.

200 Given the wide array of differences in opinions on this issue, rather than responding in detail to
201 each assertion, I have elected to explain why Mr. Rukosuev's arguments are misplaced with
202 respect to a few critical issues.

203 **Q. On lines 577-607 of his direct testimony, Mr. Rukosuev explains the CP and NCP**
204 **methods and concludes that somehow the CP allocator is more accurate, and is therefore**
205 **more appropriate for allocating distribution lines. How do you respond?**

206 A. This is not a valid argument and, in fact, AIC's CP and NCP demands are both accurate
207 and based on sound statistical practices. AIC has the system peak load for each hour, not just the
208 single system peak hour. AIC's load research department calibrates each rate class's hourly
209 demand estimates (or actual recorded demands if data is available) to each hour of AIC's system
210 demand, effectively producing an hourly profile for each rate class that matches the AIC system
211 demand data. The process of determining the NCP demand is identical to the process of
212 determining the CP demand and undergoes the same level of scrutiny. The load research

213 department then derives the CP, NCP, and SigmaNCP³ class demands from the system calibrated
214 hourly class profiles. Therefore, Mr. Rukosuev's statement that the CP is more accurate than the
215 NCP is not convincing and is unsupported.

216 **Q. Does the Commission currently accept the accuracy of the NCP method for**
217 **purposes of other allocations?**

218 A. Yes. The Commission currently accepts the NCP method for purposes of allocating of
219 Secondary Distribution Lines. As such, the Commission obviously finds the NCP method to be
220 accurate.

221 **Q. Do you believe that Mr. Rukosuev is accurately framing this issue?**

222 A. No. The issue presented involves determining the best allocation method for primary
223 distribution lines, not the distribution system in general, which includes a much larger set of
224 facilities. Mr. Rukosuev believes that because the CP demand accurately reflects the collective
225 demand for all classes at the system wide level, it must also accurately reflect the collective
226 demand for the customers connected to each primary distribution line. This is simply not the
227 case because of load diversity.

228 The concept may be understood in a simple example of a system consisting of two
229 circuits. Circuit one has a demand at the time of system-wide peak of 500 (CP) but a circuit
230 level peak of 600 (NCP). Circuit two also has a demand at the time of system of peak of 500
231 (CP) but a circuit level peak of 900 (NCP). Total system peak demand is thus 1,000 and each

³ SigmaNCP is not addressed or defined by Mr. Rukosuev. SigmaNCP is the summation of each customer's individual maximum peak demand, regardless of the time period. The SigmaNCP value can differ depending if the reference is the annual SigmaNCP or the monthly SigmaNCP because customers can experience a different maximum demand level every month. If not explicitly stated, SigmaNCP refers to the summation of the single highest demand for each customer in a given year for all customers within a class.

has a 50% share under a CP method. On the other hand, the sum of the local system peaks is 1,500. Thus, circuit one has a local peak of 600 out of 1,500 or 40% under an NCP method, and circuit two has a local peak of 900 out of 1,500 or 60% under an NCP method. At the local circuit level, circuit one and circuit two operate independently. Loads on circuit one have no impact on circuit two, and vice versa. At the combined system level, this is not the case; load diversity allows the system to be designed for a lower peak than the sum of the individual circuits. Load diversity decreases as you move down the levels of the distribution system to the individual customer. Using the NCP method in this example recognizes this load diversity, so the issue is whether it is fairer to allocate the combined costs of both circuits at 50% (CP) each or to allocate in proportion to demands at the local circuit level, or 60/40% (NCP).

Q. Mr. Rukosuev states on line 629 of his direct testimony that neither a CP allocator nor an NCP allocator measures “local” demands. Do you agree?

A. Yes. I also agree with his following statement that each allocator seeks to represent demands on a utility-wide basis. Mr. Rukosuev's reliance on the fact that a primary distribution line can serve multiple rate classes to support his conclusion that CP demand is more cost-based is misplaced. Mr. Rukosuev misses the point that even though NCP represents demands of a single rate class and CP represents demands of multiple classes, the NCP method actually provides a closer approximation of demand on the local primary distribution system.

Q. Could you envision a better allocation factor for primary distribution lines?

A. Yes. But that allocation method would require an extremely large amount of data and analysis associated with each rate class's contribution to the peak load on each individual

primary distribution line.⁴ The summation of a class's contribution to the peak demand on each primary distribution line would be aggregated to determine the total demand imposed by each class on all primary distribution lines. This aggregated, class level total would then be divided by the summation of the peak loads on all primary distribution lines. The result would be the precise percentage, or contribution, associated with each rate class's use of primary distribution line facilities. This method would be more accurate than the CP, NCP, or any other system wide allocation factor that could be developed because it incorporates load diversity at the primary distribution line level.

But this level of detail is not available or practical to develop. Instead, AIC has various system-wide demand allocation factors: 1 CP, 12 CP, 1 NCP, 12 NCP, SigmaNCP, etc.⁵ These system wide allocation factors, starting with 1 CP, represent a spectrum with decreasingly lower amounts of load diversity. On one end of the spectrum (1 CP Method or simply CP method) reasonably matches the system-wide collective demand of all customers. This factor could reasonably be used to allocate production plant or even transmission plant. On the other end of the spectrum lies the SigmaNCP method, which matches the demand of the individual customer, absent any load diversity. This factor is appropriately used in AIC's ECOSS to allocate the costs of line transformers, of which are placed in service to provide final transformation for a small group of customers or even a single customer. The spectrum of allocation factors available allows AIC to utilize methods of varying levels of load diversity.

⁴ AIC has over 2,500 primary distribution lines or "feeders". Ameren Exhibit 2.0 P:12, Table 2

⁵ In reality there are many more allocation factors that could be derived from the monthly class demand data, but these are the most prevalently utilized by AIC for class cost allocation purposes.

272 **Q. How do you compare the available system-wide allocation methods listed above to**
273 **what you envision as a better, yet unattainable allocation method for primary distribution**
274 **lines?**

275 A. The allocation factor for primary distribution lines, as I have described above, inherently
276 includes a level of load diversity in between that of the 1 CP method and the SigmaNCP method,
277 but not equal to either one. AIC proposes to utilize the 1 NCP method (or simply NCP method),
278 which includes a level of load diversity commensurate with that of the primary distribution lines.
279 Staff, on the other hand, contends that the CP method or 1 CP method, which lies on one of the
280 extreme ends of the spectrum and measures the system-wide collective demand of all customers,
281 more appropriately represents the load characteristics of rate classes on the local primary
282 distribution system.

283 **Q. Mr. Rukosuev implies that the NCP method “punishes” the DS-5 lighting class. Is**
284 **this true?**

285 A. No. This is an exaggeration and is dispelled by information provided in AIC's direct
286 filing. Mr. Rukosuev appears to be fixated on the idea that the NCP method over allocates
287 distribution costs DS-5 lighting class, when in fact, AIC's proposal only allocates a portion of
288 primary distribution line costs to the DS-5 lighting class, and allocates none of the remaining
289 distribution plant as required for the class to receive service. Mr. Rukosuev agreed in a data
290 request response that the DS-5 class requires certain major components of the distribution system
291 in order receive service.⁶ See Ameren Ex. 5.1 Response to AIC–Staff 1.01. In other words, the

⁶ Rukosuev admits to this statement with exception of +100kV distribution lines.

DS-5 class requires distribution system components for which they are not being allocated any costs. It's difficult for me to see how AIC's proposal could be construed as an over allocation.

In addition, based on Ameren Exhibit 2.4, AIC's total revenue requirement is \$783,499,000 for all three Rate Zones. Approximately \$551,594,000 of this total is considered distribution demand-related revenue requirement and is derived from the major distribution components identified in Ameren Exhibit 5.1. AIC is proposing that the DS-5 lighting class receive approximately \$3,861,000, or approximately 0.5% of the total distribution demand-related revenue requirement. This is far from punishment in my opinion. As referenced above, AIC's proposal allocates zero costs associated with substations and high voltage distribution lines to the DS-5 class, which, as noted above, Mr. Rukosuev admits are required facilities for service. If the CP method were used instead of the NCP method for purposes of allocating primary distribution lines, the DS-5 class would be allocated zero costs associated with primary distribution lines, in addition to being allocated zero costs for substations and higher voltage distribution lines.

Q. Are there any other consequences of Mr. Rukosuev's proposal to utilize a CP method?

A. Yes. The DS-6 rate class would receive cost allocations of the primary distribution system that are far too low. When asked in a data request whether Staff believes the allocation of primary distribution lines to the DS-6 class was more appropriate using CP method compared to the NCP method, Staff responded that the class would be punished under the NCP method. See Ameren Ex. 5.2 Response to AIC-Staff 1.03. This is not a compelling argument considering that AIC's proposal for the DS-6 class consists of a group of customers who will receive overall

decreases based on the cost of service studies for each of the three Rate Zones. *See* Ameren Ex. 2.3 (column labeled “DS-6”, row labeled “Rate Increase @ proposed ROR”). These decreases exist under the Company’s proposed NCP method; therefore, it is difficult to understand how the class is being punished. To the contrary, it appears as though the customers will reap the benefits inherit in the new class. The DS-6 rate class imposes large demands on the primary distribution system (primary distribution lines) and the CP method simply doesn’t perform well when allocating costs of primary distribution lines to this class. The NCP method, however, more appropriately recognizes that the DS-6 class does impose its largest demands on the primary system during the Off-Peak fall period. For this situation, it is more appropriate to allocate costs of primary distribution lines using the NCP method.

Q. Mr. Rukosuev also states on line 858 of his direct testimony that the imposition of NCP could raise the cost of electricity to smaller residential customers. How do you respond?

A. Mr. Rukosuev’s statement is a bit misleading. I compared the NCP and CP method allocation factors for AIC’s largest residential class represented in the cost of service studies.⁷ The NCP method allocates 50.8% of the costs of primary distribution lines to the class; the CP method also allocates 50.8% of costs to the class. In other words, the use of an NCP method would not raise the cost of electricity for the residential class in this situation as Mr. Rukosuev suggests. However, the use of a CP method for primary distribution lines does create inappropriate cost allocations of primary distribution lines to the DS-5 and DS-6 classes, as I have explained earlier in testimony.

⁷ Rate Zone III DS-1 Non-Space Heat

335 **Q. Mr. Rukosuev states that the Commission shouldn't "reverse course" because of**
336 **recent orders on this issue (lines 638-95 of his direct testimony). Do find this argument**
337 **compelling?**

338 A. No. The prior decision referenced by Mr. Rukosuev related to both primary distribution
339 lines and substations, where the current proceeding focuses only on primary distribution lines. It
340 is unclear how much of that decision was based on the inclusion of substations with primary
341 distribution lines. Mr. Rukosuev hasn't provided evidence that the Commission wouldn't
342 reconsider their decision for purposes of primary distribution lines alone. I recommend that the
343 Commission consider the additional information and explanations provided in this proceeding
344 before making a decision on the allocation method of primary distribution lines. As a final point,
345 I would note that if the Commission did "reverse course" it would be reverting to an allocation
346 method that it had approved in the past, prior to Dockets 09-0306/0308 (cons).

347 **Q. Do you have any additional information to present at this time?**

348 A. Yes. I would like to share information about demand allocation methodologies used by
349 other utilities across the country. Although I recognize that use of such methodologies is not
350 controlling in respect to the outcome of this case, I do believe that the Commission will benefit
351 from the information, which I believe demonstrates that use of an NCP allocator is the most
352 widely accepted method for purposes of allocating the cost of distribution plant, especially
353 primary distribution lines.

354 **Q. What is the source of this national level information?**

355 A. AIC is a member of the Edison Electric Institute (EEI), and participates in surveys from
356 time to time. EEI circulated a survey on the topic of allocation methods in November 2007 with

responses from 28 electric utilities from various jurisdictions throughout the United States.⁸ The survey requested information regarding the utility's plant allocation methods utilized for purposes of cost of service studies. Eighteen of the respondents stated that the NCP method was used for *all* demand-related distribution plant. This includes primary distribution lines, substations, etc. Please see Ameren Exhibit 5.3 for a summary of results from this survey. Of the remaining ten survey respondents, not one utilized the 1 CP method proposed by Mr. Rukosuev in this proceeding.

Q. You stated that this survey was conducted in November 2007. Do have more recent survey data?

A. Yes. I requested that EEI initiate an email survey with three specific questions:

- 1) What allocation method is currently utilized for distribution plant in the Cost of Service Studies prepared for regulatory proceedings at your company (NCP, CP, Average & Excess, etc.);
- 2) Please state the allocation method utilized specifically for distribution substations, if different than the response above); and
- 3) Please state the allocation method utilized specifically for primary distribution lines, if different than the response above).

Q. Can you please summarize the responses from this email survey?

A. Yes. Sixteen utilities responded to the email survey. Thirteen utilities reported using the NCP method for allocation of primary distribution line costs. This represents 81% of the respondents. Consistent with the November 2007 survey, not one utility reported using the 1 CP method proposed by Staff in this proceeding.

⁸ Florida, Arizona, Arkansas, Louisiana, Georgia, Kentucky, Michigan, Minnesota, Wisconsin, Missouri, North Carolina, South Carolina, Ohio, Oklahoma, Virginia, West Virginia, District of Columbia, Maryland, Massachusetts, New York, Texas, to name a few.

379 **Q. Do you have any other credible source supporting AIC's proposed NCP demand**
380 **method for allocating primary distribution lines?**

381 A. Yes. In response to a data request issued by the ICC Staff, AIC provided additional
382 support for its rationale of utilizing the NCP method for primary distribution lines. The response
383 included a page from the Electric Utility Cost Allocation Manual prepared by the National
384 Association of Regulatory Utility Commissioners. This source clearly states that the "NCPs" are
385 generally used to allocate demand-related distribution plant. In other words, the manual appears
386 to advocate that the NCP method be used to allocate distribution plant, in general. AIC is only
387 seeking to utilize the NCP method for a portion of distribution plant, namely primary distribution
388 lines. It is unclear why Mr. Rukosuev failed to address this response in his direct testimony. *See*
389 *Ameren Exhibit 5.4.*

390 **Q. What is your conclusion on this issue?**

391 A. AIC has justified the use of the NCP method for purposes of allocating primary
392 distribution lines. Further, the NCP method appears to be the most widely used allocation
393 method for distribution plant nation-wide, especially for purposes of allocating primary
394 distribution lines. If the Commission accepts Staff's proposal to implement the CP method for
395 primary distribution lines, Illinois would continue to be an outlier with respect to the approval of
396 industry accepted practices. Finally, the CP method will continue to under allocate costs to the
397 DS-5 class and do the same to the new rate of DS-6 class.

398 **Q. What is your recommendation?**

399 A. I recommend the Commission accept AIC's proposed method of allocating primary
400 distribution lines using the NCP method. I also recommend that the Commission consider the

additional information provided in this proceeding in order to arrive at a decision for primary distribution lines, rather than relying on recent decisions which lump primary lines and substation together on this issue. I also recommend that the Commission consider the implications of this decision to cost allocations among the rate classes, especially the proposed new DS-6 rate class.

III. RESPONSE TO GFA WITNESS MR. ADKISSON

Q. Please summarize the issues related to Mr. Adkisson's testimony.

A. AIC and GFA initially disagreed on several issues, primarily related to the new DS-6 rate. Following the filing of Staff and Intervenor direct testimony, AIC and GFA participated in discussions regarding GFA's stated concerns with the new DS-6 rate and the proposed elimination of the Rate Limiter provision within DS-3 and DS-4 rates. These discussions resulted in a resolution of GFA's concerns, with some modest adjustments to AIC's proposed DS-6 rate and a scheduled phase-out of the Rate Limiter.

Q. Can you provide a summary of AIC's resolution with GFA?

A. Yes. *See* Ameren Exhibit 5.5, which summarizes the agreed upon terms.

Q. Please explain the agreement reached in regards to each of these terms.

A. I will briefly explain each term below, as well as provide an explanation of the modifications made from the initial proposal. These descriptions are meant to be illustrative and explanatory only, and should not be construed to alter or amend the agreement reflect in Ameren Exhibit 5.5.

Q. Please explain the agreement reached with regards to the Rate Limiter provision.

A. AIC initially proposed to eliminate the Rate Limiter provision of DS-3 and DS-4 rates because AIC had provided a cost-based alternative in offering the new DS-6 tariff. GFA initially proposed that the Rate Limiter not be completely eliminated. GFA suggested the Rate Limiter be set at a level that would limit the increased rates for customers who choose not to take service under DS-6. AIC has considered the potentially negative impact on existing DS-3 and DS-4 customers who could receive increased delivery service charges with the elimination of rate limiter provision, and has agreed to the following terms:

Rate Limiter Credits will be reduced each of the next 3 rate years and set to be eliminated completely by the next rate redesign proceeding. Rate Limiter ¢/kWh amounts beginning the rate periods of January 2015, January 2016, and January 2017 will be set at fixed amounts of 2.504 ¢/kWh, 4.346 ¢/kWh, and 12.270 ¢/kWh, respectively, in Rate Zone I, 2.428 ¢/kWh, 4.495 ¢/kWh, and 12.827 ¢/kWh, respectively, in Rate Zone II, and 2.768 ¢/kWh, 5.110 ¢/kWh, and 15.036 ¢/kWh, respectively, in Rate Zone III. These ¢/kWh value represent approximately 30%, 60%, and 90% phase out of the total Rate Limiter credit dollar value in each of the corresponding rate years, as measured from the Rate Limiter dollar value, proposed billing determinants, and prices shown Ameren Exhibit 1.3. The Rate Limiter Credit will not be available beginning with the January 2018 billing period.

Q. Why is this agreement a reasonable modification of AIC's proposal that AIC expects will still accomplish AIC's objectives for a temperature-based rate?

A. AIC will still accomplish the objective of eliminating the Rate Limiter provision; however, the agreement recognizes that customers may need more time to transition to the DS-6 rate, if they so choose. The newness of the proposed DS-6 may seem daunting to some customers who are more risk averse. By gradually phasing out the Rate Limiter provision, customers will be sent a meaningful price signal each year to reconsider the DS-6 rate.

Q. Please explain the agreement reached with regards to the Temperature Thresholds.

A. AIC initially proposed Tier 1 and Tier 2 temperature thresholds be average daily temperature of 70 degrees and 78 degrees, respectively, based on both a statistical analysis and the Company's distribution planning engineers' judgment. GFA initially proposed 80 degrees and 85 degrees for Tier 1 and Tier 2 based on their analysis of AIC system load data, at both 95% and 98% levels. After further discussions, AIC and GFA were able to agree that Tier 1 and Tier 2 temperature thresholds of 78 degrees and 83 degrees (average daily temperature) would provide the reasonable thresholds necessary to provide AIC with system benefits while allowing GFA to operate during warmer days than previously allowed, which may coincide with grain elevator operations.

Q. Why is this agreement a reasonable modification of AIC's proposal that AIC expects will still accomplish AIC's objectives for a temperature-based rate?

A. These temperatures provide peak day demand relief associated with distribution substations and all other upstream facilities. AIC believes that the 78 degree threshold, in combination with and excess demand charge provides customers with a strong incentive to curtail usage on the system. A temperature of 83 degrees is nearing the temperature AIC may expect on an annual system peak day. If a customer uses On-peak demand above their Delivery Allowance on these days, the Tier 2 Excess Demand Charge provides a price signal intended to recover costs of providing peak power to these customers.

Q. Please explain the agreement reached with regards to the level of Excess Demand Charges for Tier 1 and Tier 2.

A. AIC had initially proposed Excess Demand Charges (EDCs) associated with Tier 1 and Tier 2 Excess Demand amounts of \$13.227/kW of Excess Demand and 39.682/kW of Excess Demand, respectively. These amounts were equivalent to 4 times the base distribution delivery charge and 12 times the base distribution delivery charge, as filed in this proceeding. GFA initially proposed charges equivalent to 2 times and 4 times the base distribution delivery charge of the DS-6 rate. After discussions with GFA on the level of bill impacts that are possible at these levels, AIC and GFA agreed to amounts roughly equivalent to 4 times and 6 times the distribution delivery charge, for Tier 1 and Tier 2, respectively. However, AIC and GFA have also agreed that these Excess Demand Charges should be fixed charges, rather than tied to the base distribution delivery charge as initially proposed. Consistent with this agreement, Tier 1 and Tier 2 Excess Demand Charges will be set at a fixed \$13.23/kW (equivalent of 4 times) and \$19.84/kW (equivalent of 6 times). The multiplier mechanism will not be used for the new rate design methodology in this proceeding. Instead, the explicit prices identified above will be fixed amounts effective with beginning with the January 2015 billing period for a three year period. These fixed charges can be reevaluated in the next rate redesign proceeding, if necessary.

Q. Why is this agreement a reasonable modification of AIC's proposal that AIC expects will still accomplish AIC's objectives for a temperature-based rate?

A. AIC believes the level of the Excess Demand Charges provide a reasonable price signal to cause customers to curtail use on days exceeding the temperature thresholds. Actual experiences of operating the tariff will help AIC determine if this assumption is true.

Q. Why is AIC interested in the EDC's being fixed charges?

A. If the CP method is accepted in this proceeding, the current formula for determining Excess Demand charges would be the multiplier mentioned above. In other words, if AIC is expecting an EDC of approximately \$13.23/kW and \$19.84/kW, the CP Method will drive the base distribution delivery charge down, perhaps below \$1/kW, making the EDC's entirely too low to provide the appropriate price signal. This may drive unintended participants to the rate that would otherwise remain DS-3 or DS-4. This would be an unintended consequence that should be avoided; thus AIC has suggested this solution.

Q. Please explain the agreement reached with regards to the time periods applicable to Excess Demand Charges?

A. AIC initially proposed that the Excess Demand Charges could apply for any period during On-Peak hours on days when the average daily temperature exceeds the thresholds identified at Tier 1 and Tier 2. GFA initially proposed that the time period where EDC's could be assessed be restricted to June 15 through September 5. AIC and GFA further discussed time periods associated with historical temperature data and agreed that Tier 1 and Tier 2 Excess Demand Charges should only be applied on days from May 15 through September 14 of each calendar year.

Q. Why is this agreement a reasonable modification of AIC's proposal that AIC expects will still accomplish AIC's objectives for a temperature-based rate?

A. The chances of AIC having a system peak inside this time period is the greatest; therefore the tariff appropriately assesses the Excess Demand Charge price signal only during this period.

Q. Does AIC reject any of GFA's initial proposals?

513 A. Yes. The GFA proposed to limit the DS-6 rate to the first 100 DS-3 customers and the
514 first 50 DS-4 who elect to receive service under DS-6 each year. AIC and GFA have agreed that
515 this isn't necessary given the tariff structure and other agreed upon terms.

516 **IV. RESPONSE TO IIEC WITNESS MS. ALDERSON**

517 **Q. What the purpose of your response to Ms. Alderson's direct testimony?**

518 A. The purpose of responding to Ms. Alderson's direct testimony is to clear up the confusion
519 around a perceived difference in an allocation method used in AIC's ECOSS. I will provide the
520 explanations necessary to clarify the fact that the underlying cost allocation methodology hasn't
521 changed.

522 **Q. Why is there confusion around the meter investment allocation methodology?**

523 A. As explained further below, AIC has changed the *presentation* of the meter investment
524 allocation in proceedings subsequent to Dockets 09-0306/0308 (cons.). This change in
525 presentation has caused a perception that the methodology has changed; however, the underlying
526 methodology and calculations that encompass the meter investment allocation methodology are
527 the same as Dockets 09-0306/0308 (cons.), and also subsequent MAP proceedings, as I will
528 demonstrate below.

529 **Q. Does a different presentation of costs constitute a new allocation methodology?**

530 A. No. This is an important distinction. Although the cost of service studies present cost
531 information differently between the two docketed proceedings, the underlying cost allocation
532 method has not changed, as Ms. Alderson suggests.

533 **Q. Please explain.**

A. In Dockets 09-0306/0308 (cons.), the allocator CUST370 contained all meter investment components included in FERC Account 370-Meters. In this proceeding, along with subsequent⁹ proceedings to Dockets 09-0306/0308 (cons.), AIC has separated the total investments included in FERC 370-Meters into two separate categories: 1) Meters and 2) PT's/CT's/other. While the ECOSS presented in Docket 09-0306/0308 (cons.) contained a single cost category "Meters" which included meters, potential transformers, current transformers, and all other related investments, the ECOSS presented in the current proceeding includes a separation of this historically single category into the two categories mentioned above. After carefully examining of the ECOSS models (and underlying work papers) provided in this proceeding and comparing to those provided in Dockets 09-0306/0308 (cons.), Ms. Alderson will notice that the ECOSS model included in this proceeding has two rows for FERC Account 370 meter investments while the models provided in Dockets 09-0306/0308 (cons.) has only the one row. The relevant sections of the ECOSS models are reproduced below:

Docket 13-0476

369-SERVICES	CUST369
370-METERS	CUST370
370-POTENTIAL & CURRENT TRANSFORMERS	CUST370A
371-INSTALL. PROP ON CUST PREM	CUST371
373-STREET LTGH & SIGNAL SYS	CUST373
374-ASSET RETIREMENT OBGS.	DEMSEC

Dockets 09-0306-0308 (cons.)

369-SERVICES	CUST369
370-METERS	CUST370
371-INSTALL. PROP ON CUST PREM	CUST371
373-STREET LTGH & SIGNAL SYS	CUST373
374-ASSET RETIREMENT OBGS.	DEMSEC

⁹ 11-0279, 12-0001, 12-0293, 12-0301

Q. Is the allocator named CUST370 the same allocation factor used for both proceedings?

A. No. While the name or description is the same, the underlying allocation factors are derived from different portions of the underlying cost allocation methodology.

Q. Please explain.

A. CUST370 in Dockets 09-0306/0308 (cons.) allocates the combined costs all meter investments included in FERC Account 370. CUST370 in the current proceeding allocates only the investments of the meters themselves.¹⁰ CUST370A is used to allocate the remaining costs within FERC Account 370 including PT's/CT's/other meter related investments.¹¹ Therefore, Ms. Alderson is inadvertently proposing to change the meter cost investment allocation methodology, which I don't believe to be her intent.

Q. Why are two allocation factors used now instead of the single factor, if the cost allocation methodology hasn't changed?

A. Generally speaking, residential meter installations are the lowest cost and require less equipment. A standard installation in this class includes a meter and some labor. Larger commercial and industrial customers who take service at the primary voltage level or higher require additional equipment. Potential and current transformers make up the greater portion of costs for these installations. Therefore, an allocation factor developed around the costs of PT's/CT's/other would not be a good fit for allocating the all costs of the meter investments themselves to the rate classes, due to the higher occurrence of costs in the non-residential classes.

¹⁰ As well as a meter test and portion of total labor, "Meter cost allocation 2012.xls" work paper

¹¹ Components identified by Ms. Alderson in IIEC Exhibit 2.0, line 128

Likewise, an allocation factor developed around the meter investments themselves would not be a good fit for allocating costs of PT's/CT's/other to rate classes.

Q. If the methodology hasn't changed, as explained above, then why has AIC made the effort to change the presentation of these meter related cost allocations?

A. AIC incorporated a secondary "meter study" into the ECOSS model in an effort to improve the efficiency of preparing the unbundled portion of the cost of service studies. The incorporation of the meter study into the ECOSS required the additional row in the model as illustrated earlier in my testimony. This new presentation of the ECOSS has not affected the underlying cost allocation methodology or computations for the meter investment allocations to the rate classes. In Dockets 09-0306/0308 (cons.), a secondary "meter study" was developed to isolate the investments related to meter service (unbundled meter service). In other words, the "meter study" was developed for the purpose of determining a revenue requirement for the unbundled "Meter" service. This unbundled "Meter" service did not include and currently does not include the costs associated with PTs/CTs/other. The ECOSS produces several unbundled component revenue requirement for the various "services" offered by AIC; this particular unbundled "Meter" service revenue requirement just happened to be calculated in a secondary study, as opposed to within the ECOSS model in which all other unbundled components were calculated.

Q. Ms. Alderson recommends that AIC utilize only the one old allocation factor named CUST370, rather than both modified CUST370 and additional CUST370A. How do you respond?

592 A. The two allocation factors were historically combined into a single allocation factor for
593 purposes of allocating the cost of FERC Account 370 in Dockets 09-0306/0308 (cons.). AIC has
594 since separated the single allocation factor into the two derivative allocation factors. This
595 splitting of a single factor into two separate allocation factors creates the perceived differences in
596 the allocation factors presented by Ms. Alderson. However, the underlying methodology is the
597 same as Dockets 09-0306/0308 (cons.). In other words if we use only CUST370, we would have
598 to roll back into that factor the cost components comprising the CUST370A in order to be
599 “apples-to-apples” with what was done in Dockets 09-0306/0308 (cons.). Anything else would
600 be a change in methodology, of which neither AIC nor any other party is fundamentally
601 proposing.

602 **Q. Can you provide an illustration to aid the understanding of these differences?**

603 A. Yes. In her direct testimony, Ms. Alderson presents Table 1, which compares the two
604 allocators CUST370 and CUST370A. I agree that these allocation factors presented in her table
605 are consistent with those filed by AIC in this proceeding. However, Ms. Alderson’s table
606 provides a partial and distorted view of AIC’s allocation methodology. In Dockets 09-
607 0306/0308 (cons.), AIC used the combined allocation factor named CUST370, identified on lines
608 1, 7, and 13 in my Table 1 below. The single allocation factor in Dockets 09-0306/0308 (cons.)
609 was derived from the two underlying allocation factors identified on lines 2-3, 8-9, and 14-15, in
610 order to produce the composite allocation factors shown on lines 1, 7, and 13. Instead of
611 focusing on the name or label of an allocation factor, the underlying calculations should be
612 examined. The more appropriate comparisons for Ms. Alderson to make would be rows 1 to 4, 7
613 to 10, and 13 to 16.

Table 1

RZ I								
Line No.	Docket No.	Allocator	Total Company	DS-1	DS-2	DS-3/DS-3S	DS-4/DS-4S	DS-5
1	09-0306	CUST370-ALL Components	1.00000	0.72523	0.14772	0.07564	0.05141	-
2		% PT & CT Other	1.00000	0.01603	0.13643	0.50586	0.34168	-
3		% Meters Only	1.00000	0.83868	0.14953	0.00682	0.00497	-
4	13-0476	CUST370&CUST370A-ALL Components	1.00000	0.65381	0.25894	0.05551	0.03137	0.00036
5		CUST370A - % PT & CT Other	1.00000	0.00650	0.62869	0.22801	0.13595	0.00086
6		CUST370 - % Meters Only	1.00000	0.83982	0.15269	0.00594	0.00132	0.00022
RZ II								
	Docket No.	Allocator	Total Company	DS-1	DS-2	DS-3/DS-3S	DS-4/DS-4S	DS-5
7	09-0306	CUST370-ALL Components	1.00000	0.74776	0.13637	0.05638	0.05948	-
8		% PT & CT Other	1.00000	0.10562	0.22789	0.31852	0.34797	-
9		% Meters Only	1.00000	0.87092	0.11882	0.00611	0.00415	-
10	13-0476	CUST370&CUST370A-ALL Components	1.00000	0.68051	0.21800	0.06069	0.04064	0.00016
11		CUST370A - % PT & CT Other	1.00000	0.00695	0.55062	0.25909	0.18294	0.00040
12		CUST370 - % Meters Only	1.00000	0.86752	0.12565	0.00560	0.00114	0.00010
RZ III								
	Docket No.	Allocator	Total Company	DS-1	DS-2	DS-3/DS-3S	DS-4/DS-4S	DS-5
13	09-0306	CUST370-ALL Components	1.00000	0.73249	0.15842	0.05221	0.05688	-
14		% PT & CT Other	1.00000	0.02683	0.34606	0.29088	0.33623	-
15		% Meters Only	1.00000	0.87051	0.12172	0.00553	0.00224	-
16	13-0476	CUST370&CUST370A-ALL Components	1.00000	0.68196	0.20988	0.05730	0.05010	0.00076
17		CUST370A - % PT & CT Other	1.00000	0.00684	0.52780	0.24138	0.22218	0.00181
18		CUST370 - % Meters Only	1.00000	0.87386	0.11951	0.00497	0.00119	0.00046

Q. Why are there differences in the allocation factors presented in Table 1 above between the two proceedings?

A. Although the underlying methodology is unchanged, the results can be different. AIC updates the inputs to the allocation factor formulas in each proceeding. Inputs in this case refer to number of meters of each type and cost of each component for each type of installation. The differences shown in Table 1 between the two proceedings are due to differences in the cost inputs.

Q. What would be the result if the Commission accepted Ms. Alderson's proposal?

A. The Commission would be effectively modifying the cost allocation method utilized by AIC in Dockets 09-0306/0308 (cons.). Most importantly, the proposal would result in the

shifting of costs of potential and current transformers from the large demand non-residential classes, of which are appropriately allocated, to the residential class. This is a violation of cost causation principles and unfairly allocates costs to the residential class. AIC and IIEC appear to agree that the cost allocation methodology should be the same as the one approved in Dockets 09-0306/0308 (cons.), and AIC's proposal would ensure this is withheld. If the Commission inadvertently accepts Ms. Alderson's proposal to change the meter cost investment allocation methodology, the residential customers will suffer inappropriate increases to cost allocations.

Q. What is your recommendation?

A. I recommend the Commission reject Ms. Alderson's proposal and accept AIC's meter cost investment allocation methodology as prepared for this proceeding. The methodology is consistent with Dockets 09-0306/0308 (cons.) and is that which was approved by the Commission in that proceeding. The methodology as presented in this proceeding is also consistent with all MAP formula update proceedings. The litmus test should be whether or not underlying cost allocation methods have changed, and they have not.

V. RESPONSE TO IIEC WITNESS MR. STEPHENS

Q. To which issues raised by Mr. Stephens do you wish to respond?

A. I address Mr. Stephens' two proposals related to the issue of separation of single/dual phase costs from three-phase costs of the primary distribution system. Mr. Stephens' first proposal requests that the Commission direct the Company and all interested parties to review the merit of separating, for purposes of class cost allocation, primary distribution line costs into the two categories: 1) single-phase circuits and 2) three-phase circuits. His second proposal would modify the ECOSS provided in this proceeding by separating primary distribution line

costs into the two categories mentioned above, and allocate the single-phase portion exclusively to customers taking service at secondary voltages.

Q. Please explain Mr. Stephens' first proposal in further detail.

A. Mr. Stephens recommends that the Commission direct the Company and all interested parties to review the merit of separating the primary distribution line costs into single-phase and three-phase components and assigning the single-phase costs exclusively to customers taking service at secondary voltages. Mr. Stephens also recommends that such investigation or workshop be conducted jointly with Commonwealth Edison (ComEd), presumably because Mr. Stephens has made a similar proposal in ComEd's Rate Redesign docket, Docket 13-0387. Mr. Stephens also recommends that AIC implement the results of this investigation at the earliest appropriate opportunity, but no later than the Company's next rate redesign proceeding.

Q. What has been the reception to Mr. Stephens' proposal in Docket 13-0387?

A. It appears that Staff generally opposes Mr. Stephens' proposal on this issue.

Q. How do you respond to Mr. Stephens' proposal in this proceeding?

A. AIC takes no position regarding participation in an investigation or workshops related to this issue. If the Commission decides to direct AIC to participate in workshops, AIC would strongly recommend that workshops be conducted separately from any workshop applicable to ComEd. The two companies likely have different information technology systems and data available for analysis, and AIC doesn't believe that it would be beneficial or efficient to have one workshop, given the issues that may be unique for each utility. In addition, if the Commission decides that an investigation is necessary on this issue, then AIC should have the option to

consider incorporating any findings in the next rate redesign proceeding, but should not be explicitly required to incorporate any such findings from the investigation.

Q. How do you respond to Mr. Stephens' second proposal?

A. AIC is reluctant to make such an adjustment at this time. Mr. Stephens' first proposal to review the merit of separating the primary system into single- and three-phase components should be addressed first and resolved before consideration of if or when any adjustments are made to the ECOSS. If the Commission hasn't yet decided whether there is merit in such cost allocation method, then certainly adjustments should not be made to its effect at this time.

Q. Do you have other concerns with the 10-20% adjustment proposed by Mr. Stephens?

A. Yes. Mr. Stephens estimates that 10-20% reduction in primary function costs is reasonable based on cost information provided within AIC's filing, yet he has not provided estimates of the offsetting portion of three-phase primary distribution line costs that exclusively serves customers that take service at primary voltage. Instead, he states that this estimate can be determined later in the context of an investigation or workshop. Without knowing the magnitude of all potentially offsetting adjustments to his proposal, it would not be appropriate make any adjustment for the interim period before a final Commission decision is made on this issue.

Q. If Mr. Stephens provides an estimate of offsetting adjustments in his rebuttal testimony, would you then accept his revised adjustment in this proceeding?

A. No. Any estimates would be based solely on Mr. Stephens' judgment and estimation. This would conflict with Mr. Stephens' first proposal to include all interested parties in

determining the merit and deciding what amount, if any, of the primary distribution line costs should be exclusively allocated to customers who take service at secondary voltages.

VI. RESPONSE TO IIEC WITNESS MR. RUBIN

Q. To which issues raised by Mr. Rubin do you wish to respond?

A. I address Mr. Rubin's opposition of AIC's proposed cost allocation methods for investment associated with AIC's Advanced Metering Infrastructure (AMI) Plan.

Q. What does Mr. Rubin recommend with regard to the allocation of AMI Plan investments?

A. Mr. Rubin agrees with AIC's proposal that the cost of purchasing and installing AMI meters should be allocated in the same manner as AIC's traditional metering plant investment (CUST370), which is the allocator used for the costs of meter investments charged to FERC Account 370. However, Mr. Rubin proposes that all *other* AMI infrastructure costs should be allocated using the LABOR allocator currently used to allocate General and Intangible Plant. The *other* non-meter specific AMI Plan investments would include the purchase and installation costs for the hardware for the AMI Communications Network and the Information Technology (IT) hardware and software assets supporting this AMI Communications Network. This proposal by Mr. Rubin is inconsistent with the approach proposed by AIC.

Q. Why did AIC propose to use the same allocator for AMI meters and other non-meter AMI investments like Communications Network and IT plant?

A. AIC proposed to allocate future anticipated costs related to the AMI Plan in a manner that matches the way these costs are incurred, which is a fundamental goal in cost of service studies.

AIC chose to be proactive in regards to these investments, rather than passively allowing the incumbent allocation factor, LABOR, to apply to these substantial anticipated investments. As such, the other non-meter AMI investments support the AMI meters investments; thus cost-causation would dictate that these other non-meter AMI investments follow the same allocation method, CUST370.

Q. Does Mr. Rubin agree that the AMI-related Communications Network and IT plant investments are necessary for the AMI Meters to be fully functional?

A. Yes. Mr. Rubin agrees with this statement in responding to data requests AIC-AG 1.07 and AIC-AG 1.08.

Q. Can you illustrate the difference between these two allocation factors?

A. Yes. Table 2¹² below shows a comparison of the allocation factors: CUST370 and LABOR. The percentages represent the allocation factors or portions of total investment related to the AMI Plan that would be allocated to each rate class under both proposals. As you can see, in comparing Mr. Rubin's proposal to AIC's, Mr. Rubin's proposal results in a substantially lower allocation of costs to the DS-1 class and significantly more costs being allocated to the other classes, including DS-5 which is a class receiving predominantly unmetered dusk to dawn lighting services.

¹² DS-6 customers have been included in their respective DS-3 or DS-4 classes (DS-3S and DS-4S) for purposes of simplifying this illustration

728

Table 2

RZ I						
<u>Allocator</u>	<u>Total Company</u>	<u>DS-1</u>	<u>DS-2</u>	<u>DS-3/DS-3S</u>	<u>DS-4/DS-4S</u>	<u>DS-5</u>
CUST370	100.0%	84.0%	15.3%	0.6%	0.1%	0.0%
LABOR	100.0%	55.7%	24.4%	8.1%	7.7%	4.1%
RZ II						
<u>Allocator</u>	<u>Total Company</u>	<u>DS-1</u>	<u>DS-2</u>	<u>DS-3/DS-3S</u>	<u>DS-4/DS-4S</u>	<u>DS-5</u>
CUST370	100.0%	86.8%	12.6%	0.6%	0.1%	0.0%
LABOR	100.0%	62.3%	19.6%	8.2%	5.9%	3.9%
RZ III						
<u>Allocator</u>	<u>Total Company</u>	<u>DS-1</u>	<u>DS-2</u>	<u>DS-3/DS-3S</u>	<u>DS-4/DS-4S</u>	<u>DS-5</u>
CUST370	100.0%	87.4%	12.0%	0.5%	0.1%	0.0%
LABOR	100.0%	62.1%	19.8%	7.6%	7.0%	3.5%

729

730 **Q. Do you disagree with Mr. Rubin's general assertion that AMI Investment is “not**
731 **necessarily proportional to the number of customers”?**

732 A. No. I do not disagree with that general assertion, but Mr. Rubin’s comment
733 mischaracterizes the Company’s proposal. AIC’s proposed allocation method is driven by, but
734 not equal to “number of customers.” The purpose of my testimony is to support AIC’s proposal
735 of a customer-based allocator, and show that a customer-based method is superior to the method
736 advocated by Mr. Rubin.

737 **Q. Mr. Rubin cites, but does not explain in any detail, his analysis of data for an AMI**
738 **installation for Potomac Electric Power Company (PEPCO) in Washington, DC. Do you**
739 **find that analysis to be persuasive support for his use of a LABOR allocator for AIC’s non-**
740 **meter AMI investments?**

A. No. As Mr. Rubin points out himself, his analysis would be “different for each utility, depending on the customer characteristics and the specific metering equipment and related infrastructure that is used.” In response to data request AIC-AG 1.13, Mr. Rubin also stated that the proceeding, in which he submitted his analysis, is still pending before the District of Columbia Public Service Commission. So it is not clear that either PEPCO or the D.C. Commission accepted his cost allocation percentages or the underlying analysis that derived them.

Q. Mr. Schonhoff, you stated in your direct testimony that your method captures the costs and benefits, specifically the benefits of decreased meter reading expenses. Can you elaborate on the point you were trying to make in your direct testimony?

A. I am not testifying to the benefits of the AMI; that has been addressed in Docket 12-0244. The focus of my testimony in this proceeding is to identify the costs, address how they are incurred, and decide how best to allocate them to the rate classes for purposes of cost of service. I continue to believe that the AMI Plan Investments support the AMI Meters. Cost-causation would dictate that these costs are most appropriately allocated using the customer-related allocation factor CUST370, which is also used to allocate the meter investment to rate classes.

Q. If you are not testifying to the benefits of AMI, then why even mention decreased meter reading expenses as a benefit?

A. This statement was not intended to stir up debate over the benefits of AMI. I simply provided an example of certain costs that could offset the increased costs related to AMI. I could have alternatively stated in my direct testimony that decreased meter reading expense would occur to counteract the effect of the increase in AMI Plan Investments, mentioning nothing about

“benefits.” Any discussions of the benefits of AMI in this proceeding are misplaced; this proceeding is about cost of service and rate design methodologies.

Q. Mr. Rubin states that AMI Investments are not proportional to the number of customers. How do you respond?

A. As stated in my direct testimony, AIC is not proposing to allocate the costs of AMI Investments on the number of customers. AIC is proposing to allocate these investments using a customer-related allocation factor- CUST370. AIC’s proposed allocation factor does incorporate the differences that exist in installation costs of meters of different sizes and load characteristics, as recommended by Mr. Rubin (AG Ex. 1.0, p. 6:124-25). Mr. Rubin also recognizes this distinction yet characterizes CUST370 as simply the number of customers (*see* AG Ex. 1.0, lines 91-93 where he identifies the percentage of customers in Rate Zone I as 85.9%, but recognizes that CUST370 would allocate 84.0%).

Q. Mr. Rubin also states that AIC cannot assume that AMI Investments will “look like traditional metering investments.” (AG Ex. 1.0, p. 6:123-24.) How do you respond?

A. AIC’s proposal is not to continue to assume that future AMI investments will look like traditional metering investments. As AMI meter investments are made at known installed costs, AIC will be able to incorporate these costs into the allocation factor calculations using the currently approved methodology. This is no different than any other change in the installed cost of a specific meter type, or any other rollout of a different meter type. I understand that the rollout of AMI meters in this case will be aggressive by historical standards of meter exchanges, but the methodology won’t change. For example, if AIC currently has 100,000 residential meters of a certain type and installed cost, then these costs at the relative weighting are

incorporated into the meter cost allocation method calculations, which in turn result the allocation factor CUST370. If the company subsequently installs 60,000 AMI meters of a certain type and installed cost by the end of 2014, then AIC's subsequent MAP update proceeding utilizing a 2014 test year would include the costs and relative weighting associated with these new AMI meter investments. AIC shouldn't wait over three years to address this issue in the next rate redesign case, as proposed by Mr. Rubin, when AIC's current meter cost allocation methodology addresses Mr. Rubin's concerns in these regards.

Q. Do you have any other statements around Mr. Rubin's testimony?

A. Yes. Mr. Rubin discussed the numerous benefits around the AMI Plan. Again, the purpose of my testimony is not to discuss, justify, or quantify any benefits of AMI. These discussions are largely misplaced in this docket initiated for purposes of examining and determining cost of service allocations. A goal of a cost of service study is to identify costs and allocate those costs to the rate classes as they are incurred, or as closely as possible.

Q. What do you recommend?

A. AIC has proposed a reasonable cost allocation methodology, one that Staff agrees with, and I recommend the Commission accept AIC's proposal to allocate AMI Plan Investments using the allocation factor used for meter investments- CUST370.

VII. CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.